



General Certificate of Secondary Education

Applied Business 3831

3830/3 Unit 3

Mark Scheme

2006 examination – June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

1

Total for this question: 21 marks

(a) Using **Item A**, complete the **shaded** areas below by identifying which financial document would be used in each of the following situations.

(i) *Barston Office Supplies Ltd* sends this document with the office stationery. (1 mark)

- Delivery note (D)

(ii) Tracey will complete this document when the office stationery is delivered. (1 mark)

- Goods received note (E)

(iii) *Barston Office Supplies Ltd* sends this document to request payment for the office stationery. (1 mark)

- Invoice (A)

(iv) *Barston Office Supplies Ltd* sends this document at the end of the month to inform Tracey of how much she owes. (1 mark)

- Statement of account (C)

(v) Tracey sends this document with a remittance advice to pay for the office stationery. (1 mark)

- Cheque (B)

- (b) Tracey needs to complete the purchase order below. Fill in the missing figures in the shaded boxes. (4 marks)

Purchase Order					
			<i>Taxis To Go Ltd</i> 43 Park Road Barston BA44 5NX		
Purchase Order Number: 140021			Date: 14 February 2006		
To: <i>Barston Office Supplies Ltd</i> Barston Road Barston BA48 9PX					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
4	Boxes of Self-Seal Envelopes-Plain	6	00	24	00 (1)
10	Reams of Premier Laser Paper	5	00	50	00 (1)
2	Electric Staplers	50	00	100	00 (1)
Total				174	00 (OFR)

- (c) Tracey's drivers pay for fuel for the taxis by using a company credit card. Explain **two** advantages to Tracey of this method of payment. (6 marks)

Answers can include:

- convenient method of payments. Drivers will not need to be given cash to buy petrol. Security;
- the card will be accepted by most garages;
- short term borrowing without being charged interest if paid off each month. Could significantly benefit the cash flow of the business;
- credit card statement will aid record keeping. Could reduce the chances of fraud.

Level	Descriptor	Marks
3	Candidate fully explains advantage to Tracey.	3
2	Candidate partially explains advantage.	2
1	Candidate states advantage.	1

Apply twice.

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- (d) *Barston Office Supplies* offers a discount to customers who pay by direct debit. Explain **two** reasons why *Barston Office Supplies* might offer a discount to customers who pay by direct debit. (6 marks)

Reasons could include:

- once the direct debit is set up they will receive the money automatically;
- less paperwork less staff costs;
- improves cash flow because they receive money quickly;
- may attract sales at the same time as improving cash flow.

Level	Description	Marks
3	Candidate fully explains reason.	3
2	Candidate partially explains reason.	2
1	Candidate states reason.	1

Apply twice.

2

Total for this question: 20 marks

- (a) Some of *Taxis To Go Ltd's* costs are fixed and some are variable.

Complete the table below to identify for Tracey whether the costs are fixed costs or variable costs. Place **one** tick in the appropriate column for each cost. (4 marks)

Costs	Fixed costs	Variable costs
Business rates	✓	
Petrol for the new cars		✓
Insurance of the new cars	✓	
Receptionist's wages	✓	

- (b) Tracey is not sure whether the wages paid to her drivers are a fixed cost or a variable cost. State whether wages are a fixed or variable cost. Explain your answer.

(4 marks)

Level 2 responses likely to indicate that drivers would probably be paid hourly and that the more hours worked the higher this cost will be.

Candidate can state either fixed cost or variable. Candidate provides clear reason for choice.

Level	Descriptor	Marks
2	Candidate fully explains cost in context.	3-4
1	Candidate partially explains cost.	1-2

- (c) Explain why Tracey needs to calculate the start-up costs and running costs of the new contract.

- (i) Start-up costs

(3 marks)

Answers could include:

- the start up costs of the new contract must be met or provided for before the business receives any income but are only incurred once;
- Tracey will need to ensure that she can afford the start-up costs whilst there is no revenue from the contract;
- Tracey might need to take out a loan to finance start-up costs.

Level	Descriptor	Marks
3	Candidate fully explains need to calculate start-up cost.	3
2	Candidate partially explains need to calculate start-up cost.	2
1	Makes basic statement about start-up costs.	1

(ii) Running costs

(3 marks)

Answers could include:

- running costs are ongoing expenses that will need to be paid during the life-time of the contract;
- Tracey will need to know that running costs can be met from revenues.

Level	Descriptor	Marks
3	Candidate fully explains need to calculate running costs.	3
2	Candidate partially explains need to calculate running costs.	2
1	Makes basic statement about running costs.	1

(d) Tracey can either buy or lease the new luxury cars. Should Tracey buy or lease the cars? Justify your answer. (6 marks)

Recommendations could include:

Buy

For

- The cars will be owned by the business.
- Can be sold at a future date.
- Could be cheaper than leasing.

Against

- The cars could lose value.
- Implications for cash-flow.

Lease

For

- They will always have “new” cars.
- Possibility of upgrading.
- Smaller initial expenditure.

Against

- They will have no cars left after period of the lease to sell.
- May cost more.

Level	Descriptor	Marks
3	Candidate fully justifies recommendation.	5-6
2	Candidate partially justifies recommendation.	3-4
1	Candidate explains recommendation.	1-2

3**Total for this question: 25 marks**

(a) Use **Item C** to identify the following:

(i) the number of journeys to break even *(1 mark)*

- 100 journeys

(ii) the total revenue from 200 journeys per week *(1 mark)*

- £10 000

(b) Explain how Tracey's break-even chart might help her to make a decision about the new contract. *(5 marks)*

Explanation could include:

- can identify how much profit or loss the business would make at different levels of activity;
- can see the possible effects of changes in prices;
- can see the possible effects in changes in costs.

Level	Descriptor	Marks
3	Candidate fully explains how break-even will help make decision.	4-5
2	Candidate partially explains how break-even will help make decision.	2-3
1	Candidate states how break-even will help make decision.	1

(c) Tracey estimates there will be, on average, 95 journeys per week for the luxury car contract.

- (i) Using the break-even chart in **Item C**, state why Tracey might be unhappy with this situation. *(1 mark)*

She would be making a loss.

- (ii) Suggest and explain **two** actions that Tracey could take in these circumstances. *(6 marks)*

Actions could include:

- raising fares to break-even more quickly at a lower level of output;
- reducing fares to attract more customers;
- try to change either fixed or variable costs, eg drivers' wages.

Level	Descriptor	Marks
3	Candidate fully explains action in context.	3
2	Candidate explains actions.	2
1	Candidate states action.	1

Apply twice.

(d) If Tracey decides to lease the luxury cars, fixed costs will be £4125 per week. The other calculations for the luxury car contract will stay as:

- average variable costs of £12.50
- average fare per taxi journey £50.00.

Using the formula below, calculate how many customers Tracey will need each week to break even. *(3 marks)*

$$\frac{\text{£4125 (1)}}{(\text{£50} - \text{£12.5) (1)}} = 110 \text{ customers}$$

(e) Should Tracey accept the luxury car contract? Justify your answer. (8 marks)
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Candidate can argue either way.

At current estimates (95 journeys per week) the contract would make a loss, however the contract is quite close to break-even 100 or 110 journeys so if the price could be increased the contract might be feasible. Or if the business could increase the number of journeys in the future based on good service etc, it could become viable.

Arguments could consider that beyond break-even the service quickly becomes very profitable.

Could other businesses be attracted to the service?

Level	Descriptor	Marks
3	Candidate justifies decision.	6-8
2	Candidate partially justifies decision.	3-5
1	Candidate provides explanation of decision.	1-2

4

Total for this question: 34 marks

- (a) (i) Complete *Taxis To Go Ltd's* Profit and Loss Account for the year ended 31 March 2006 by filling in the **shaded** boxes in the table below. (3 marks)

<i>Taxis To Go Ltd</i> Profit and Loss Account for the year ended 31 March 2006		
Sales revenue		£412 000
Cost of sales		£ 80 000
Gross profit		£332 000 (1)
Expenses		
Wages	£110 000	
Advertising	£ 2 000	
Other costs	£ 20 000	
Total expenses		£132 000 (1)
NET PROFIT		£200 000 (1) (OFR)

- (ii) Explain how Tracey could use this Profit and Loss Account to support her application for a bank loan. (5 marks)

Explanations could include:

- would demonstrate the ability to pay back a loan. Company makes a profit of £200 000 in the current year, therefore could pay back the loan in less than 5 years;
- give information on profitability.

Context will relate to the above profit and loss account, use OFR.

Level	Descriptor	Marks
3	Candidate explains how Profit and Loss Account could support a loan application in context.	4-5
2	Candidate explains how Profit and Loss Account could support a loan application or partially explained in context.	2-3
1	Candidate states how Profit and Loss Account would support a loan application.	1

- (b) (i) Complete the Balance Sheet for *Taxis To Go Ltd* by filling in the **shaded** boxes in the table below. (4 marks)

<i>Taxis To Go Ltd</i>		
Balance Sheet as at 31 March 2006		
	£	£
Fixed assets		
Premises		150 000
Cars		200 000
Radio and office equipment		40 000
		(1) 390 000
Current assets		
Debtors	6 000	
Bank	42 000	
Total current assets	(1) 48 000	
Less current liabilities		
Creditors	15 000	
Net current assets		(1 OFR) 33 000
Net total assets		(1 OFR) 423 000
Financed by		
Shareholders' funds		423 000

- (ii) Explain why debtors are a current asset. (2 marks)

- Debtors owe money to the business (1).
- Current assets are possessions of a business (1).
- Has to be paid back within 12 months (short period of time) (1).

(iii) Explain how the bank could use the Balance Sheet to help decide whether to give Tracey the loan. (5 marks)

Explanations could include the following:

- information provided, eg assets, liabilities and capital;
- security for the loan from above information;
- information about solvency.

Context will relate to the above Balance Sheet.

Level	Descriptor	Marks
3	Candidate fully explains how the Balance Sheet could help bank decide.	4-5
2	Candidate partially explains how the Balance Sheet could help bank decide.	2-3
1	Candidate states how the Balance Sheet could help the bank decide.	1

(c) Explain **one** item of information that Tracey would want from the bank before deciding whether she should take the loan. (3 marks)

Information could include:

- rate of interest;
- repayment period – can it be varied?
- security required.

Level	Descriptor	Marks
2	Candidate explains information.	2-3
1	Candidate states information.	1

(d) Tracey has forecasted her cash-flow as part of her loan application. It includes the purchase of the new business in June, but does not include the loan from the bank.

State **two** reasons why the bank has asked for this Cash-flow forecast. (2 marks)

Answers could include:

- shows net inflows and outflows of cash (1);
- whether the business has the money to pay back a loan (1);
- evidence of financial planning (1);
- part of the Business Plan for a loan (1).

- (e) Using all the information available, consider the case for and against the bank giving the loan to Tracey. You should make a decision and justify your answer.

(10 marks)

Relevant answers might include the following:

For:

- at current rate of profit Tracey could pay back the loan in one year;
- she has assets of £390 000 to secure the loan;
- negative cash flow is reducing each month.

Against:

- loan would not cover the negative cash flow in June/July;
- interest payments would reduce profits and cash flow;
- would the purchase of the new business generate profits?

Level	Descriptor	Marks
3	Candidate develops full explanation.	5-7
2	Candidate offers limited explanation.	3-4
1	Candidate identifies relevant points.	1-2

Level	Descriptor	Marks
E 3	Candidate offers judgement plus full justification.	3
E 2	Candidate offers judgement plus limited justification.	2
E 1	Candidate makes unsupported judgement.	1